

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2018-____-WS

IN RE: Application of Carolina Water)
Service, Inc. for Approval of a)
Franchise Agreement between)
Carolina Water Service, Inc. and)
York County, South Carolina)

**APPLICATION FOR APPROVAL
OF FRANCHISE AGREEMENT**

Exhibit A
Franchise Agreement

STATE OF SOUTH CAROLINA)
)
 COUNTY OF YORK)

FRANCHISE
 AGREEMENT

THIS AGREEMENT, ("Agreement") is entered into this 5th day of FEBRUARY, 2018, by and between York County, South Carolina (the "County"), and Carolina Water Service, Inc. ("CWS"), a Delaware corporation.

RECITALS

WHEREAS, the County as a political subdivision of the state of South Carolina, has the authority to construct both water and sewer systems and to grant franchises for the operation of water and sewer systems to others under the general law, statutory enactments of the South Carolina General Assembly, and provisions of the code of York County, as amended; and

WHEREAS, CWS is a "public utility" as defined by the laws of the State of South Carolina and is subject to the jurisdiction of the South Carolina Public Service Commission, which established a service territory including portions of York County for the provision of water and sewer service; and

WHEREAS, pursuant to a Franchise Agreement dated January 28, 1992, by and between CWS and the County, the parties agreed to certain terms and conditions with respect to the lease of certain water and sewer service facilities in York County conditioned upon the County granting CWS a non-exclusive franchise for the operation of water and sewer systems within a defined geographical area of York County; and

WHEREAS, CWS was granted a non-exclusive franchise for the operation of water and sewer systems within a defined geographical area of the County (the "CWS Franchise Area") for a period of twenty-five (25) years by ordinance adopted by the York County Council on February 17, 1992; and

WHEREAS, pursuant to the January 28, 1992 Agreement, CWS and the County entered into a Lease Agreement dated November 18, 1996, whereby CWS agreed to lease the County wastewater facilities for a period ending February 17, 2017; and

WHEREAS, pursuant to the January 28, 1992 Agreement, CWS and the County entered into an agreement dated November 18, 1996, whereby the County agreed to grant CWS the right to use that portion of the Lake Wylie Western Shore Force Main located within the CWS Franchise Area for a period ending February 17, 2018; and

WHEREAS, pursuant to the January 28, 1992 Agreement, CWS and the County entered into a Lease Agreement dated November 18, 1996, whereby CWS agreed to lease to the County certain real property including an elevated storage tank and other facilities for a period ending February 17, 2017 (a copy of the November 18, 1996 Lease of Real Property and Elevated Storage Tank and Facilities is attached hereto as Exhibit 1); and

WHEREAS, by agreement approved by York County Council September 6, 2016, CWS and the County have agreed to extend the franchise agreement by six (6) months to February 17, 2018; and,

WHEREAS, CWS and the County desire to extend the term of the franchise for a period of 25 years, and in so doing, 1) to restore to CWS the obligation to operate and maintain all water

and sewer facilities heretofore leased to the County; and 2) to lease the County's water lines, sewer force mains, and pump stations located within the CWS Franchise Area to CWS; and

WHEREAS, due to capacity limitations in the County's regional wastewater system the County has invested significant sums into improvements and facilities which are not recovered by the most favorable County wholesale rates which are applied to CWS; and

WHEREAS, due to the authority of the South Carolina Public Service Commission ("PSC") over privately-owned public utilities providing water and wastewater services in designated service territories, this local franchise agreement is subject to the review and approval by the PSC as well as any rates and charges covered herein; and

WHEREAS, as of November 2017, the County owns assets within the CWS franchised area to facilitate connection to the County regional systems which are specifically allocated to service of CWS customers shown on the franchise area County facilities map in Exhibit 2; and

WHEREAS, CWS and the County acknowledge the County's statutory right to acquire all water and wastewater facilities located within the CWS Franchise Area at any time during or after the term of the Franchise Agreement. Nothing herein shall prevent the County and CWS from voluntarily entering an agreement for the County's purchase of the Franchise Assets.

NOW COME THEREFORE, for and in consideration of the payment by CWS to the County in the amount of \$10.00 and the mutual covenants and undertakings contained herein, the parties agree as follows:

1. CWS and the County agree to extend CWS' franchise for the operation of water and sewer systems within the CWS Franchise area of York County for a period of

25 years. The franchise extension created herein shall be a non-exclusive franchise for the operation of water and sewer systems within the CWS Franchise Area, See Exhibit 2, with the right of first refusal for the provision of water and sewer services to potential new water and sewer customers within the Franchise Area.

2. a. The County will lease to CWS all County-owned infrastructure, including real property, easements and leases, located within the CWS Franchise Area for which CWS agrees to be responsible for the cost of maintaining, upgrading, extending, or replacing these leased assets and lines, to wit:

- (i). Water Mains

- 3,106 ft. of 6"
- 6,684 ft. of 10"
- 11,604 ft. of 12"

- (ii). Sewage Force Mains

- 7,318 ft. of 6"
- 5,430 ft. of 8"
- 16,845 ft. of 12"

- (iii). River Hills Sewer Pump Station

- (iv). The Mill Pond Chemical Feed Facility

- b. The County will own, maintain, and retain control of the Crowders Creek Sewer Pump Station and the 16" influent and effluent lines extending from the 12" Main Line to and from the station. The Crowders Creek Pump Station will be for the exclusive use and benefit of CWS and its franchise service area. The County agrees to be responsible for the cost of upgrading, extending, or replacing these assets and lines.

c. Utilizing County enterprise funds, the County is currently up-fitting a portion of the sewer line leased to CWS and constituting part of the Main Line to the City of Rock Hill and which extends from the connection point described immediately above to the Franchise Area boundary for a total approximate length of 3,950 feet +/- (see the Delineation Map attached and incorporated herewith as Exhibit 2) . The County and CWS recognize this work will be ongoing at the time of and immediately after the execution of this Agreement.

d. To the extent that the County requires access to its equipment or facilities located on property leased to or owned by CWS, the County shall have the reasonable right of ingress and egress on CWS property to access its equipment, provided that as circumstances warrant, the County shall give CWS notice of its intent to enter upon its property. The parties may create a schedule by separate agreement.

e. The parties agree to share relevant information which would assist them in the operations of their respective water and wastewater utilities.

3. CWS agrees to provide:

for odor control at the Mill Pond Chemical Feed Facility to render the raw sewage to the Crowder Creek sewer pump station acceptable to the County.

4. CWS agrees to pay the annual capital recovery for the County's leased assets as shown on Exhibit 3 on a monthly basis.

5. CWS agrees to pay the County a two (2%) percent franchise fee on the capital recovery charge payments made to the County pursuant to the franchise agreement and representative of, inter alia, the right of first refusal to customers in the franchise area for

the provision of water and sewer services to those customers; county rights-of-way access and utilization; county maintenance of access rights-of-way; benefits from county police, fire, and emergency services; county storm water services; and, franchise related oversight and administration. The franchise fee, payable to the County in arrears and subject to approval, may be shown as a rider on the CWS customer's monthly bills. The collection of the franchise fee from CWS customers and its payment to the County, as well as the lease payments pertaining to the County-owned assets identified in Paragraph 1(a) hereinabove will not be effective until assessed by York County and approved by the PSC.

6. The County agrees to coordinate with CWS those right-of-way projects necessary in the franchise area and consider the potential utility relocation costs in the County decision making. The County grants to CWS the use of the public rights-of-way in such a fashion as not to interfere with transportation, drainage, natural gas, telecommunications or electric facilities or their operations, maintenance, renewal, replacement and/or improvements.

7. Capacity Increases.

- a. The City of Rock Hill (the "City") provides drinking water to York County and plans to expand its drinking water treatment plant to meet increased capacity demands. The City will require all its wholesale customers to pay a percentage of the cost to increase capacity based on the average daily flow of water. CWS acknowledges that it contributes to the County's average daily flow

of water and agrees to pay its pro-rata share of the capacity cost increase, as set out in “7(b)” below.

b. CWS acknowledges and agrees to pay CWS’ flow proportional share of the potential plant capacity increases which are charged by the City of Rock Hill to the County. At present, the City’s water treatment plant capacity is 36 mgd. City intends to expand its treatment plant from 36 to 48 mgd. The City, County and the City’s other wholesale customers are each responsible for their respective Responsible Percentage (defined below) of any and all costs to expand the City’s treatment plant capacity from 48 mgd to 60 mgd (“Capacity Increase”). County’s percentage share of the costs of such Capacity Increase shall be calculated by measuring County’s average daily flow of water during the calendar year the City determines to increase the mgd from 48 to 60, subtracting County’s average daily flow from the calendar year immediately preceding the Effective Date of the County’s Agreement with the City of Rock Hill (“County’s Average Flow Difference”) and dividing the difference by twelve (12) which will provide County with percentage of costs for which it shall be responsible (“Responsible Percentage”). For example, if the City needed to expand the plant capacity beyond 48 mgd up to 60 mgd and County’s average daily flow has increased from 3 to 4.2 mgd, County would be responsible for 10% of the capital costs to expand the City’s treatment plant capacity from 48 mgd to 60 mgd. Similarly, under a mechanism and formula derivative of the method described above, CWS’s pro-rata share for the City of Rock Hill capacity increases shall be determined as a

percentage share of the capital costs of such capacity increase calculated by measuring CWS' average daily flow of water into the franchise area as measured at the County meter during the calendar year the City determines to increase the mgd from 48 to 60, subtracting CWS' average daily flow from the calendar year immediately preceding the Effective Date of the County's Water Service Agreement with the City of Rock Hill dated September 23, 2013 and dividing the difference by the County's Average Flow Difference, which will provide CWS with percentage of capital costs of the capacity expansion for which it shall be responsible. For example, expanding on the above example, should CWS' average daily flow increase from 1 mgd during the year immediately preceding the date of the County's Water Services Agreement with the City of Rock Hill dated September 23, 2013 to 1.25 mgd in the year the City elects to expand capacity, CWS would be required to pay 20% of the County's capital costs of the capacity expansion.

c. The City of Rock Hill has notified the County that the City will be making regulatory upgrades to the City wastewater treatment plant sometime in the mid 2020's.¹ Should the County be required to pay a percentage of the capital cost of these regulatory upgrades of the City's sewer treatment plant under its September 23, 2013 wastewater agreement with the City of Rock Hill, CWS acknowledges that it currently contributes to the County's average daily flow of wastewater and

¹ At the time of the execution of this agreement, there does not exist an express mechanism to allocate the pro-rata share of regulatory upgrade costs to York County by the City of Rock Hill; and, therefore, the County to CWS. Nevertheless, York County has been informed of an anticipated potential pro-rata charge which may be assessed by Rock Hill at some point in time in the future for the capital cost of the regulatory upgrades and for which the County seeks to account in this agreement.

agrees to pay its pro-rata share of the capital costs of the regulatory upgrades which could be imposed by the City upon the County. However, should the County not be required to contribute to the City of Rock Hill wastewater treatment plant upgrades as described in this paragraph, CWS shall not be required to contribute its corresponding pro-rata share of the City's wastewater treatment plant upgrades.

d. The pro-rata share calculation for the capital costs which the City may seek to collect from the County under the September 23, 2013, wastewater agreement for the mandated regulatory improvements, described above, will be calculated by determining CWS' average monthly volume of wastewater flow leaving the franchise area as measured at the Crowders Creek Master Meter for the year immediately preceding the year the City elects to commence its required regulatory upgrades ("CWS' Average Flow"). The County will divide CWS' Average Flow by the total average monthly wastewater flow contributed by the County to the City of Rock Hill sewer treatment plant as measured by the City Master Meter for that same year to determine CWS' percentage of the County's cost for the City of Rock Hill sewer treatment plant upgrades. For instance, should CWS' Average Flow measure 5 mgd, and the County's total average flow measure 25 mgd, the CWS pro-rata share would be 20% of the total amount the County owes to the City of Rock Hill for the sewer treatment plant upgrade.

e. Should the County elect to purchase the CWS franchise area system during the pendency of the franchise agreement, any pro-rata share contributed to

the County by CWS for the benefit of the proposed City of Rock Hill capital improvements, as described above and related to capacity increases or regulatory mandates, shall be credited to CWS in the system acquisition price. The acquisition price credit to CWS shall be calculated using the same methodology set out elsewhere in this agreement as that agreed upon by the parties to value the assets.

8. CWS' operations will meet all federal, state and local regulatory requirements.

In particular, within 90 days of the approval of this agreement:

- a. CWS will submit its FOG (fats, oils, greases) program and maintain compliance with the City of Rock Hill Industrial Pretreatment Program;
- b. CWS will recognize drought/water restrictions which are to be based upon City of Rock Hill restrictions;
- c. CWS will treat for pH, odor and corrosion control, will coordinate with County on the testing to determine effectiveness of treatment in its wastewater flow from Mill Pond to the Crowder Creek pump station, and furnish the results to the County on a frequency mutually agreed to by CWS and the County; and
- d. CWS will provide adequate water storage capacity for its franchise territory.

9. a. CWS will make an assessment of its water and sewer system needs within the CWS Franchise Area and develop a ten-year capital improvement

plan and implementation schedule to be submitted to the County for information within 12 months of date of the County ordinance granting the 25 year extension of CWS' franchise.

b. CWS agrees that any capital improvements deemed critical, or any other categorization connoting the need for near-term attention, shall be commenced within six (6) months of the generation of the plan (or sooner per terms of the plan).

10. CWS will continue to maintain local personnel in the County including its area manager and service personnel.

11. CWS will install emergency backup connection facilities for water supply to Charlotte Mecklenburg Utilities. Should the County choose to have access to this water supply for emergency backup to its water system, the County will be responsible for all capital costs necessary to construct metering facilities to transfer water to its system on a schedule mutually agreed to by CWS and the County and at rates approved by the PSC.

12. CWS will install remote monitoring on all sewage pump stations on the Lake Wylie and on all major pump stations.

13. Performance metrics. CWS will maintain performance metrics for billing results, call center performance and customer complaints and provide the County quarterly reports regarding billing accuracy, call center performance and customer complaints for a period of three (3) years after the date of this agreement. For the purpose of this requirement, CWS may maintain the performance metrics on a

statewide basis. After three years, upon request by York County, CWS shall provide the performance metrics report for the quarter immediately preceding the request.

14. County utility service shall include:

- a. The County will continue to provide water to CWS meeting the requirements of the U. S. Environmental Protection Agency (EPA) and the South Carolina Department of Health and Environmental Control (DHEC) and will strive to sustain delivery without interruption.
- b. In furtherance of the requirements of subsection a, above, the County will install a sample tap and in-line total chlorine monitoring probe and recorder in the meter vault for confirmation of the 0.20 mg/l total concentration from water supplier, City of Rock Hill.
- c. As this bulk service arrangement is a consecutive water system as defined by DHEC, the County will cooperate with CWS to resolve any water quality issue, including, but not limited to, Lead and Copper, Total Trihalomethanes, and disinfection issues, and jointly work with the City of Rock Hill, the water provider, to resolve any such water quality issue that may arise in a timely manner.
- d. The County shall continue to provide sewage transportation and treatment capacity to CWS sufficient for the transportation and treatment of sewage generated within the CWS franchise area during the term of the CWS franchise extension, subject to a proposed subdivision or development area receiving an appropriate willingness and capability letter applicable to the development.

15. CWS acknowledges that the County has the right to set rates for wholesale bulk water and sewer services it provides CWS and periodically, the City may increase the rates it charges the County for water and sewer services, thereby affecting the County rates.

CWS agrees to pay to the County such wholesale water and sewer rates as may be established from time to time by the County, provided that the County will provide the bulk water and sewer service to CWS at a rate not greater than the most favorable wholesale rate for bulk water and sewage services available to any other wholesale customer on the County's system, including private and public entities.

16. The cost of water and sewer service will be based on master meter readings at appropriate locations. Currently, the water master meter is located near the intersection of Highways 274 and 55. The sewer master meter is currently located at the Crowders Creek sewer pump station.

17. CWS hereby agrees to collect the prevailing/current County impact/capacity fees and other one-time capital charges and applicable fees and shall remit such collection fees to the County on a frequency mutually agreed to by the CWS and the County. CWS agrees that it will not connect any customer within the CWS Service Area without first determining that such customer has paid the applicable/required County impact/capacity fees and other applicable charges a sewer tap certificate in accordance with the terms of this Agreement.

Consistent with York County billing practices and CWS' current practice of remitting collected fees and charges on a monthly basis, York County will issue its water and sewer

invoices to CWS on a monthly basis to its address(es) of record maintained by York County and CWS shall continue to remit its payments for water and sewer and collected fees to York County by issuing the same monthly.

18. The parties hereto understand and agree that CWS shall be entitled, with respect to water and sewer facilities owned and leased by CWS, to charge and retain such water and sewer user fees and connection fees as are authorized by the South Carolina Public Service Commission.

19. The County agrees to allow CWS to expand its water distribution facilities and sewage collection facilities, either directly or through developer agreements, so as to serve customers not presently served by CWS but which are located in the Franchise Area. Any such expansion shall be subject to: (i) the terms and provisions of applicable County Ordinances provided that such ordinances do not conflict with this franchise agreement; (ii) such franchise amendment as may be entered into between CWS and the County; (iii) applicable rules, regulations and orders of the Public Service Commission; (iv) applicable rules, regulations and order of the Department of Health and Environmental Control; (v) any other applicable Federal, State or local laws.

20. CWS acknowledges the County's statutory right to acquire through condemnation the Franchised Assets to wit, all real property, easements, pumps, pipes, fittings, water tanks, basins, and all water and wastewater facilities located within the CWS Franchise Area at any time during or after the term of the Franchise Agreement, provided that valuation of the Franchise Assets shall be without regard to the status of the Franchise. Nothing herein shall prevent the County and CWS from voluntarily entering an agreement for the

County's purchase of the Franchise Assets.

21. This agreement is conditioned upon the granting of a 25-year extension of CWS' franchise by York County Council.

22. This agreement is conditioned upon approval by the South Carolina Public Service Commission. The existing franchise agreement executed by York County and CWS on January 28, 1992 shall be extended during the pendency of the approval process for this franchise agreement before the Public Service Commission; at which time, upon approval of this agreement, the existing 1992 franchise agreement shall terminate and this agreement shall take effect.

23. In the event this agreement is not approved by the South Carolina Public Service Commission, the parties agree to extend the existing franchise agreement a minimum of 6 months, but no more than a maximum of 18 months, to resolve any issue preventing the approval of the franchise renewal agreement contemplated herein.

24. If any party hereto breaches a material obligation as established by this Agreement, such breach will constitute a default. The non-defaulting party shall give written notice detailing the breach alleged to constitute such default, by certified mail, return receipt requested, and the defaulting party shall have ten (10) days after receipt of such notice, in event of non-payment, and sixty (60) days for other events of default, within which to cure such default. If such default is not cured within such cure period, the non-defaulting party may hold in abeyance continued performance of its obligations under this Agreement until such time as the default is cured. This remedy is in addition to, and not in lieu of, any other remedies at law or in equity. In the event that either party hereto suffers actual

damages as a result of a breach hereto, any judgement obtained shall include costs of the action and reasonable attorney fees.

25. No waiver of any breach or breaches of any provisions of this Agreement shall be construed to be a waiver of any preceding or succeeding breach of such provision or of any other provision hereof.

26. Time is of the essence to each and every provision of this Lease Agreement.

27. This agreement may be modified or amended only by an instrument in writing duly authorized and executed by both the CWS and the County. This agreement may not be amended or modified by oral agreements or understandings between the parties unless such oral agreements or understandings shall be reduced to writing duly authorized and executed by both the CWS and the County.

28. Except as provided in this Agreement, neither party to this Agreement shall be liable to the other for failure, default or delay in performing any of its obligations hereunder. If such failures, default or delay is caused by strikes or other labor problems, by force of nature, unavoidable accident, fire, acts of the public enemy, interference by civil authorities, acts or failure to act, decisions or orders or regulations of any governmental or military body or agency, office or commission, delays in receipt of materials, or any other cause, whether of similar or dissimilar nature, not within the control of the party affected and which, by the exercise of due diligence such party is unable to prevent or overcome, except as otherwise provided for herein. Should any of the foregoing events occur, the parties hereto agree to proceed with diligence to do what is reasonable and necessary so that each party may perform its obligations under this

Agreement.

29. Each and every provision of this agreement shall bind and shall inure to the benefit of the parties hereto, their respective successors and assigns.

30. This agreement shall be deemed to be an agreement made under, and for all purposes shall be construed in accordance with, the laws of the State of South Carolina.

31. In the event that any clause(s) or provision(s) of this agreement shall be held invalid by any court of competent jurisdiction, the invalidity of such clause(s) or provision(s) shall not affect the remaining clauses and provisions hereof.

32. (a) All notices or communications required or permitted under this Lease Agreement or which either party may desire to assert upon the other shall be deemed sufficiently given or served if served personally or by certified or registered mail, postage prepaid, address as follows:

To York County: William P. Shanahan, Jr., (or successor)
York County Manager
6 South Congress Street
P.O. Box 66
York, SC 29745

With Copy to: Michael K. Kendree (or successor)
County Attorney
26 W. Liberty Street
PO Drawer 299
York, SC 29745

To Carolina Water Service, Inc.: Catherine E. Heigel, President
Carolina Water Service, Inc.
150 Foster Brothers Drive
West Columbia, SC 29172

With Copy to: Laura K. Granier, Esquire
General Counsel
Carolina Water Service, Inc.

2335 Sanders Road
Northbrook, IL 60062

or such other place or places or to such other person or persons as shall be designated in writing by the respective parties.

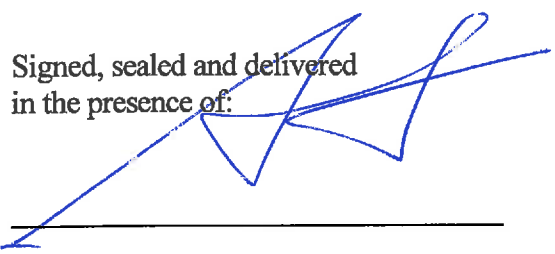
(b) CWS shall provide the County with:

- (i) In addition to statutory and regulatory requirements regarding notice of filings before the Public Service Commission, 20 days' written notice of any meeting or hearing set before or by the South Carolina Public Service Commission on any and all issues which arise within or pertain to CWS and its operations within the York County franchise area or otherwise affect CWS' York County customers; and,
- (ii) 20 days' written notice, where practicable, of any meeting scheduled by CWS for its York County customers or communities which it serves.


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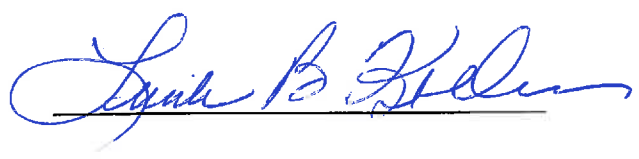
IN WITNESS WHEREOF the parties hereto have hereunto set their hands and seals to
this agreement in duplicate originals the day and year first above-written.

Signed, sealed and delivered
in the presence of:



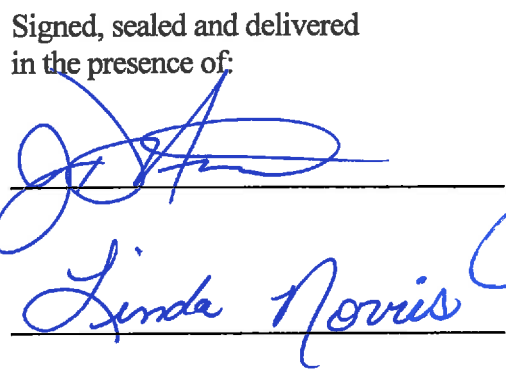
CAROLINA WATER SERVICE, INC.

BY: 
Catherine E. Heigel, President

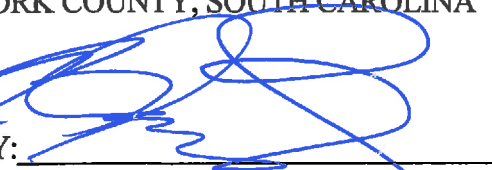


Attest: 
Michael R. Cartin

Signed, sealed and delivered
in the presence of:



YORK COUNTY, SOUTH CAROLINA

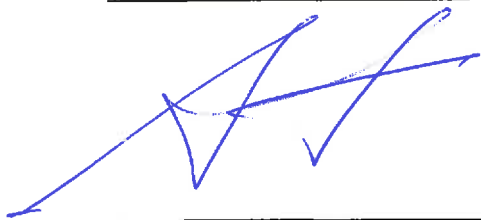
BY: 

Attest: 

STATE OF SOUTH CAROLINA)
)
 COUNTY OF RICHLAND)

PROBATE

PERSONALLY appeared before me Scott Elliott who made oath that that he saw the within named Carolina Water Service, Inc., by Catherine E. Heigel, its President, sign the within Agreement, and Michael R. Cartin, attest the same, and the said corporation, by said officer, seal said Agreement, and as its act and deed, deliver the same, and that he with Linda B. Kitchens witnessed the execution thereof.



SWORN to before me this 12th
 day of February 2018.


 Notary Public for the State of South Carolina

My Commission Expires:



STATE OF SOUTH CAROLINA)
)
 COUNTY OF YORK) PROBATE

PERSONALLY appeared before me David Harmon
 who made oath that that he/she saw the within named York County, South Carolina, by
J. Britt Blackwell, its Chairman, sign the within Agreement, and
William P. Shanahan, its County Manager, attest the
 same, and the said corporation, by said officers, seal said Agreement, and as its act and deed,
 deliver the same, and that he with Linda Norris witnessed the execution
 thereof.



SWORN to before me this 5th
 day of February, 2018.

David M. Brandon
 Notary Public for the State of South Carolina

My Commission Expires: 1-30-2022

EXHIBITS

1. 11/18/1996 Lease of Real Property and Elevated Storage Tank and Facilities
2. 1/2017 County Utility Assets built inside CWS Franchise area to facilitate connection to the County Regional systems – Franchise Area Map
3. Capital Recovery Charge Determination

Exhibit 1

STATE OF SOUTH CAROLINA)
)
COUNTY OF YORK)

**LEASE OF REAL PROPERTY AND ELEVATED
STORAGE TANK AND FACILITIES**

This Lease Agreement made and entered into this 18th day of November, 1996, by and between Carolina Water Service, Inc., a Delaware corporation, hereinafter referred to as Lessor, and York County, South Carolina, a body politic and political subdivision of the State of South Carolina, hereinafter referred to as Lessee,

WITNESSETH:

WHEREAS, Lessee, as a political subdivision of the State of South Carolina, has the authority to construct both water and sewer systems and to grant franchises to others under the general law, statutory enactments of the South Carolina General Assembly, and provisions of the Code of York County, as amended; and

WHEREAS, Lessor is a "public utility," as defined by the laws of the State of South Carolina, and is subject to the jurisdiction of the South Carolina Public Service Commission, which has established a service area for the Lessor's water services which includes portions of York County; and

WHEREAS, Lessor was granted a non-exclusive franchise for the operation of water and sewer systems within a defined geographical area of York County (the "CWS Franchise Area") by ordinance adopted by the York County Council on February 17, 1992; and

WHEREAS, Lessee intends to supply water and/or provide water distribution services and provide wastewater transportation and treatment services within certain areas of York County which include the CWS Franchise Area; and,

WHEREAS, by Agreement, dated January 28, 1992, Lessee agreed to lease from Lessor certain property and facilities known as the River Hills elevated water storage tank; and

WHEREAS, Lessor has agreed to accept bulk water service from Lessee within the Lessor's approved Franchise Area in York County pursuant to an Agreement entered into by the Lessee and Lessor, dated as of January 28, 1992.

NOW, THEREFORE, this Lease Agreement is entered into pursuant to the terms and provisions of that certain agreement entered into by and between York County and Carolina Water Service, Inc., dated January 28, 1992.

1. Lease of property and elevated storage tank.

For and in consideration of the promises, covenants and conditions herein contained, and in further consideration of the execution of an agreement by Lessee pursuant to which Lessor shall have the right to the use of a water transmission main completed by York County within the CWS Franchise Area; Lessor has agreed to accept bulk water service from Lessee within its County-approved Franchise Area; and for other good and valuable consideration, the receipt, adequacy and sufficiency of which is hereby acknowledged, Lessor has and does hereby lease and demise unto Lessee, its successors and assigns, and Lessee has and does hereby agree to lease from Lessor, for the term and upon the conditions herein set

forth those certain premises located in York County, South Carolina, together with the elevated water storage tank, equipment and appurtenances located thereon more particularly shown and described in paragraph 3 of this Lease Agreement.

2. Effective date and term.

Lessee, its successors and assigns, shall have and hold the above-described property, elevated storage tank, equipment and appurtenances upon the terms and conditions herein stated for a term commencing on the date of this agreement and extending through February 17, 2017, when it shall expire.

3. Description of property and elevated tank, etc.

The property which is leased and demised under this Lease Agreement is described as follows:

All that certain parcel of land lying and being situate in River Hills Plantation, Bethel Township, York County, South Carolina, the boundaries of which are described by courses and distances on a plat of survey prepared by Frank B. Hicks Associates, Inc., S.C.R.L.S., dated July 20, 1973, entitled "A Plat of Property of Commodore Utility Corporation Elevated Water Tank Site," as follows: BEGINNING at an iron located N 63°11'15" E 114.90 feet from an iron in the northeastern corner of Lot 27, Honeysuckle Woods, Section VIII, River Hills Plantation, and running thence from such beginning point along a course of N 12°21'24" E 60.00 feet to an iron; thence S 77°38'35" E 60.00 feet to an iron; thence S 12°21'24" W 60.00 feet to an iron; thence N. 77°38'35" W 60.00 feet to an iron, the POINT OF BEGINNING.

The plat on which the foregoing property is shown is recorded in PLAT BOOK 44, PAGE 26, Office of the Clerk of Court for York County, South Carolina, and by reference is made part of this description.

The above-described property is a portion of those tracts of land conveyed to River Hills Plantation Company, Inc. by The Wylie Corporation by deed dated June 1, 1970, recorded June 2, 1970, in Deed book 403, Page 79, Office of the Clerk of Court for York County, South Carolina.

TOGETHER with an easement appurtenant to the above-described tract of land for ingress and egress to and from such property over all roads, streets, and access lanes now or hereafter existing in River Hills Plantation, leading to and from such property, and leading to and from South Carolina Highway #49.

The above-described property is conveyed hereby subject to the covenant and restriction that it shall be used only for its presently committed purpose, as the site of the elevated water tank and as well site and water source for the River Hills Plantation/Commodore Utility Corporation certificated service area, and shall not be used or converted to any other commercial, industrial, or residential purpose, without the prior written consent of River Hills Plantation Company, Inc. or of its parent corporation, Sea Pines Company. This restriction and condition is imposed as and intended to be a perpetual covenant running with the above-described land.

Together with the elevated water storage tank, pipes, meters, gauges, pumps, appurtenances and equipment now or hereafter located thereon or used for the storage and distribution of a potable water supply.

4. Consideration for Lease.

In consideration for the lease of the above-described property, the Lessee agrees to operate, maintain and repair the property, tank and appurtenances herein described; and the Lessee grants to Lessor the use of a water transmission main constructed by Lessee within Lessor's Franchise Area under a separate Agreement, dated of even date herewith; and both Lessor and Lessee

agree to comply with their obligations under that certain agreement between the parties, dated January 28, 1992.

5. Use of equipment and premises.

Lessee shall use and occupy the leased premises for the treatment, storage, and distribution of a potable supply of water to and within the CWS Franchise Area and areas adjacent thereto through the term of this Lease Agreement. Lessee shall have the right, during the term of this Lease Agreement, to enclose the leased premises by a fence or other enclosure and to make improvements, additions and repairs to the leased premises, elevated water storage tank, pumps, pipes, meters, equipment and appurtenances as may be necessary or appropriate for Lessee's use of the leased premises.

6. Maintenance of premises.

Lessee shall, at its expense, operate, maintain and repair the property, elevated storage tank, equipment, appurtenances, improvements or additions thereto in good condition and repair during the term of this Lease Agreement, excluding maintenance and repair of any damage caused solely by Lessor.

7. Utilities charges.

Lessee shall promptly pay and discharge all rates, charges or fees which may become due and payable for utility service used at the leased premises during the term of this Lease Agreement.

8. Insurance.

Lessee covenants and agrees to obtain and maintain, at Lessee's expense, hazard insurance on the leased premises at all times during the term of this Lease Agreement in an amount which shall not be less than the value of the improvements, including the elevated water storage tank, equipment and appurtenances thereon. Lessee shall further obtain and maintain, at Lessee's expense, at all times during the term of this Lease Agreement one or more policies of public liability insurance written by one or more responsible insurance carriers which shall insure Lessee and Lessor against liability for injury to or death of persons or loss or damage to property occurring on or about the leased premises. The liability coverage under any such insurance policy shall not be less than \$1,000,000 for any person killed or injured and \$500,000 for property damage. Lessee will furnish to Lessor proof of such hazard insurance and public liability insurance. Lessee further agrees to obtain and maintain in force, at Lessee's expense, builder's risks, property damage and workers' compensation coverage covering Lessee's construction activities and operation of the elevated storage tank, pumps, pipes, meters, equipment and appurtenances. Lessee will furnish to Lessor proof of all such coverages prior to the commencement of construction activity and operation on the leased property.

9. Indemnity.

Lessee agrees to indemnify Lessor against any cost, liability, expense, claim, action or damages, including attorney's fees, for

injury to person or property occurring at or on the leased premises and facilities or arising out of any claims of any person or persons whomsoever by reason of Lessee's use or misuse of the leased premises, tank, equipment and appurtenances, excluding any cost, liability, expense, claim, action or damages or fees resulting solely from an act or omission of Lessor.

10. Destruction of or damage to leased premises and facilities.

During the term of this Lease Agreement, if the leased premises or facilities shall be damaged by the elements, unavoidable accident, fire or other casualty, but are not rendered substantially unusable, the Lessee shall cause such damage to be repaired. In the event that the leased premises and facilities are so damaged as to be unfit for use by Lessee for the intended purpose, Lessee may, at its option, give written notice to Lessor that it has elected to terminate this Lease Agreement, in which event this lease and the tenancy hereby created shall cease as of the date of such occurrence. In the event of such termination of this Lease Agreement, the rights and obligations under the separate agreement between Lessee and Lessor, dated of even date herewith, providing that Lessor will have the right of the use of Lessee's water transmission line, will remain unaffected.

11. Non-waiver of breach.

No waiver of any breach or breaches or any provisions of this Lease Agreement shall be construed to be a waiver of any preceding

or succeeding breach of such provision or of any other provision hereof.

12. Time of essence.

Time is of the essence to each and every provision of this Lease Agreement.

13. Amendments to be in writing.

This Lease Agreement may be modified or amended only by an instrument in writing duly authorized and executed by both Lessor and Lessee. This Lease Agreement may not be amended or modified by oral agreements or understandings between the parties unless such oral agreements or understandings shall be reduced to writing duly authorized and executed by both Lessor and Lessee.

14. Parties bound.

Each and every provision of this Lease Agreement shall bind and shall inure to the benefit of the parties hereto, their respective successors and assigns.

15. Governing law.

This Lease Agreement shall be deemed to be an agreement made under, and for all purposes shall be construed in accordance with, the laws of the State of South Carolina.

16. Notices.

All notices or communications required or permitted under this Lease Agreement or which either party may desire to assert upon the other shall be deemed sufficiently given or served if served personally or by certified or registered mail, postage prepaid, addressed as follows:

To York County:

J. Clay Killian
County Manager
P. O. Box 66
York, SC 29745

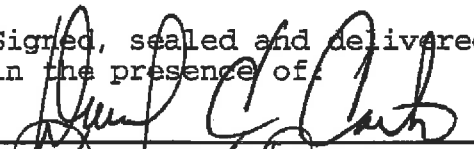
To Carolina Water Service, Inc.:

James L. Camaren
Carolina Water Service, Inc.
2335 Sanders Road
Northbrook, Illinois 60062

or at such other place or places or to such other person and persons as shall be designated in writing by the respective parties.

IN WITNESS WHEREOF the parties hereto have hereunto set their hands and seals to this Lease Agreement in duplicate originals the day and year first above written.

Signed, sealed and delivered
in the presence of:





David Camaren

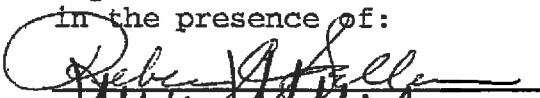
CAROLINA WATER SERVICE, INC.

By:

Attest:

Signed, sealed and delivered
in the presence of:

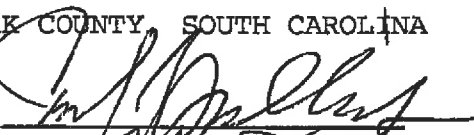
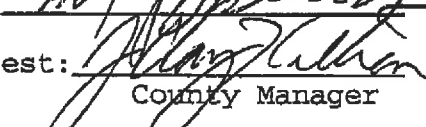


J. Camaren

YORK COUNTY, SOUTH CAROLINA

By:

Attest:

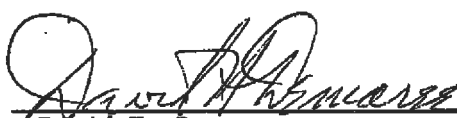


County Manager

STATE OF ILLINOIS


COUNTY OF COOK

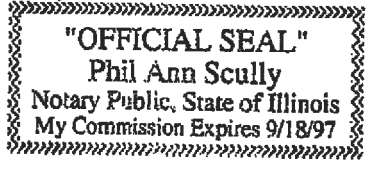
PROBATE

PERSONALLY appeared before me David H. Demaree, who made oath that he saw the within named Carolina Water Service, Inc., by James Camaren, its Chairman, sign the within Lease of Real Property and Elevated Storage Tank and Facilities, and Andrew Dopuch, its Vice President, attest the same, and the said corporation, by said officers, seal said Lease Agreement, as its act and deed, deliver the same, and that he with David C. Carter witnessed the execution thereof.


David H. Demaree
Secretary

SWORN to before me this 14TH
day of NOVEMBER, 1996.

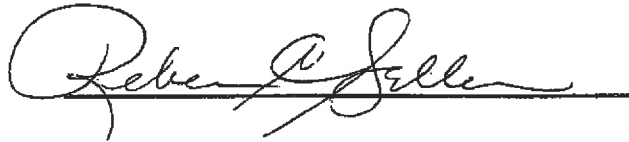

(SEAL)
Notary Public for Illinois
My Commission Expires: 09-18-97



STATE OF SOUTH CAROLINA)
COUNTY OF YORK)

PROBATE

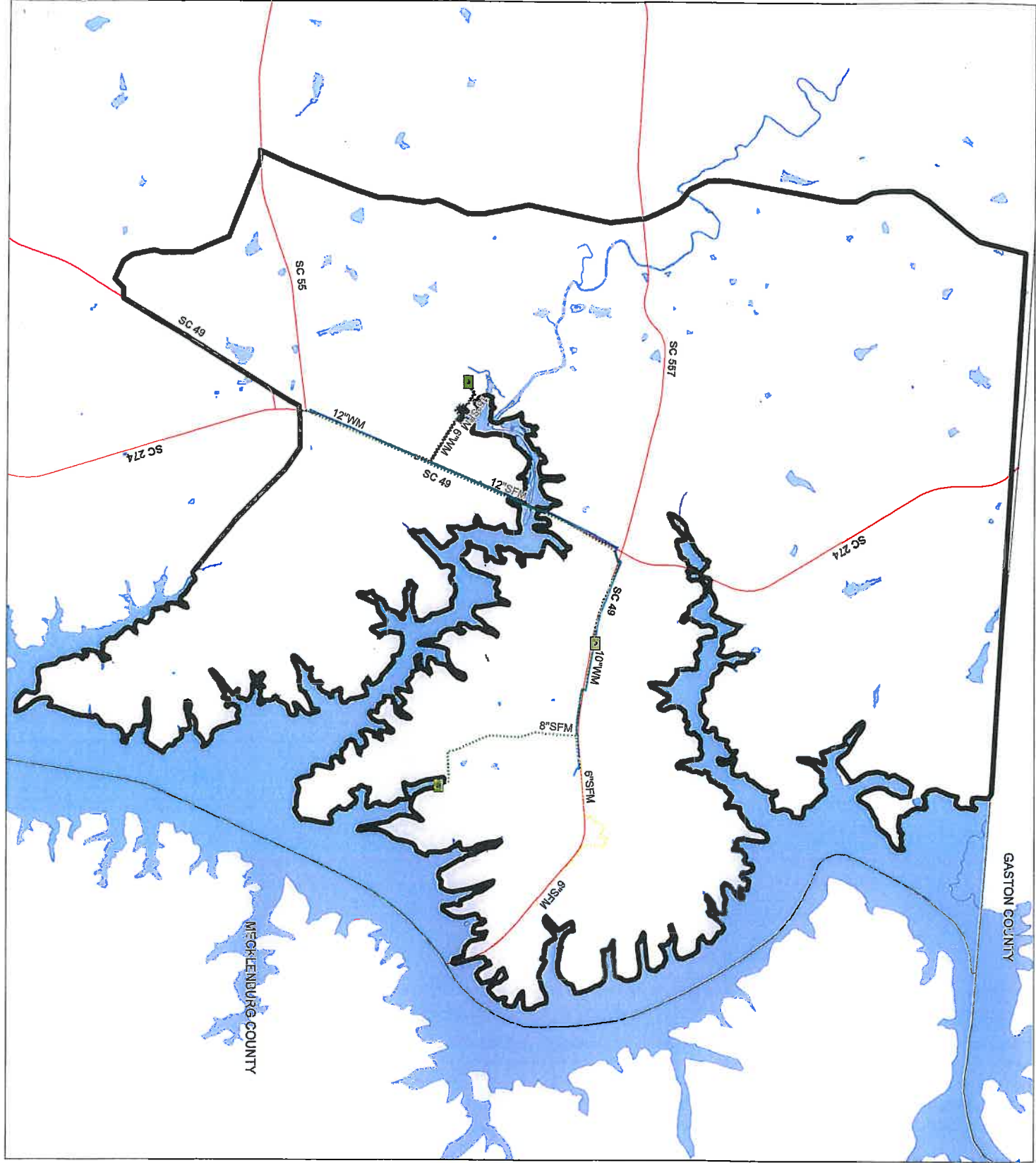
PERSONALLY appeared before me Rebecca C. Sellers, who made oath that she saw the within named York County, South Carolina, by Carl L. Gullick, its Chairman, sign the within Lease of Real Property and Elevated Storage Tank and Facilities, and J. Clay Killian, its County Manager, attest the same, and the said corporation, by said officers, seal said Lease Agreement, and, as its act and deed, deliver the same, and that she with Melvin B. McKeown witnessed the execution thereof.



SWORN to before me this 18th
day of November, 1996.

 (SEAL)
Notary Public for South Carolina
My Commission Expires: August 30, 2000

Exhibit 2



Water and Sewer Assets
in
Carolina Water
Service Area

- Pump Station
- Highway
- Carolina Water Service Area
- County Boundaries
- Lakes, Ponds

Distances in Feet
Water Lines (D):
6": 3,106
10": 6,684
12": 11,604

Sewer Force Main (PVC):
6": 7,318
8": 5,430
12": 16,845
16": 7,345

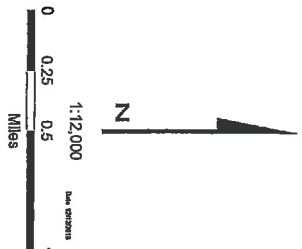


Exhibit 3 Capital Recovery Charge Determination

The County's water and wastewater investment which benefits CWS has been valued using the cost approach. The amount for service to the CWS water system is \$ 1,160,000.00. The amount for service to the CWS wastewater system is \$2,200,000.00.

In addition to the above there are other capital improvement increases which benefit CWS including, but not limited to Rock Hill costs, future pipeline upsizing or paralleling costs, etc. Those costs would be additional to that amount determined herein.

The capital recovery charge is determined by the amount allocated to either the water or wastewater system that is converted to an annual amount using a 40 year term and an interest factor of 5 percent that is then divided by 12 for a monthly payment.

As an example for a (1) \$1,000,000 amount, the annual payment is (2) \$70,952 and the monthly payment is (3) \$5,913.

Initially, for the water system these amounts are:	(1)	\$1,160,000.00
	(2)	\$67,602.67
	(3)	\$5,633.56

Initially, for the wastewater system these amounts are:	(1)	\$2,200,000.00
	(2)	\$128,211.96
	(3)	\$10,684.33

This Exhibit provides the initial amounts with a summary of the determination.

In the future additional amounts will be added at cost.